B530-2 5/14/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

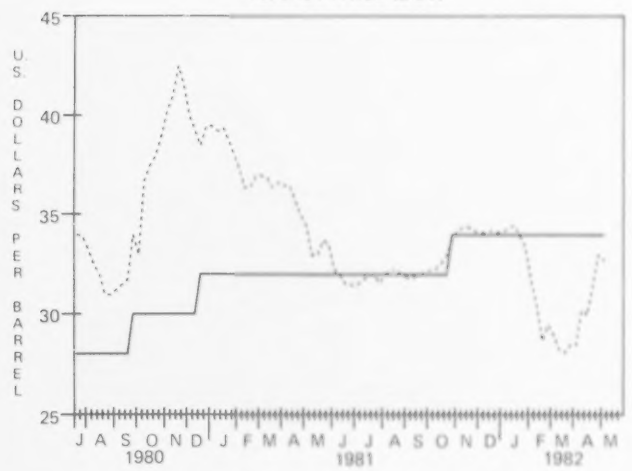
MONDAY, MAY 17, 1982 VOLUME XIX, NUMBER 20

Oil Prices Rebound . . .

After two months of decline, petroleum import prices have begun to rise again as a consequence of oil production restrictions by the Organization of Petroleum Exporting Countries (OPEC), declining crude oil inventories and rising consumption. Average OPEC spot prices (fob), which reached $33.33 per barrel in mid-January, had fallen below $28 in mid-March before reversing direction and rising to about $32 per barrel during the week of May 7. As the chart shows, prices for Saudi Arabian light crude oil (the "marker" oil for OPEC pricing) have tended to reflect price movements in the spot market—albeit with a lag.

During the last week in April, U.S. crude oil inventories stood at an estimated 366 million barrels, ten per cent below the level of a year ago and 6.4 per cent below the mid-March figure. In the past two years crude oil inventories have been at or near their highest annual levels in April and May as stocks were built up in anticipation of the summer driving season. Further, there is evidence that demand for oil products (particularly gasoline) is increasing. In the four weeks ending April 30, total petroleum product demand was two per cent higher than in the same period last year, reversing a sharp fall which began in February. Consumption of gasoline was four per cent above the previous year's rate and eight per cent above the first quarter average, after a decline which began in June of last year. This rise in consumption may be interpreted as the U.S. consumer's reaction to the previous dip in gasoline prices, along with its greater availability. The lower cost of driving versus flying for business or pleasure may have helped, too. Whether or not higher oil consumption is a transitory, seasonal phenomenon or a harbinger of a sustained reversal in the recent oil consumption pattern is of vital concern to not only the U.S. but to all oil-importing nations.

CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE) VS. SPOT PRICE (DOT)



In April, the level of imports of crude oil fell sharply. Averaging 3.1 million barrels per day (bpd), crude imports were close to 41 per cent below the average for the comparable period last year, reflecting the cutback in oil usage, along with a drawdown of crude oil stocks. Although domestic U.S. crude oil production has held steady at about 8.6 million bpd from the beginning of 1980 to the present, OPEC crude oil production has plummeted in the same period from about 29.8 million bpd to an estimated 16 million bpd—a drop of 46 per cent.

The combination of restricted OPEC production, falling inventory levels and rising consumption along with prospects for modest improvement in economic activity in the U.S. during the rest of 1982 (hence, some increase in energy demand) suggests that oil prices will continue to firm. OPEC policies aimed at maintaining the global price of oil will be effective—but only as long as such other major non-OPEC producers as Mexico decide to cooperate by restricting their production, too. On the other hand, many of the "high absorber" OPEC countries—that is, countries whose large populations and expensive development needs have consumed their oil export revenues—are slipping back into debt as their export income declines in spite of rising prices sustained by restricted production. It is possible that these members of OPEC may be forced by domestic pressures to increase production with the aim of boosting their own revenues. Obviously,

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such a decision would limit the upward movement in oil prices.

The decision by OPEC to attempt to sustain the world price of oil through sharp restrictions on production suggests other possible consequences beyond a possible rise in gasoline and other petroleum product prices. For example, the excellent progress in slowing inflation in the United States and elsewhere over the past year, which owes much to falling energy costs, may come to an end—especially if consumption continues to rise along with prices. A return to rising oil prices would exacerbate the problems of the less developed countries by increasing their import costs, their current account deficits and their already heavy debt burden.

. . . But A Smaller OPEC Role . . .

But in spite of the recent firming in oil prices, international financial markets are experiencing a fundamental change. What appears to be happening is that a massive shift is taking place in the pattern of international financial flows. Since the first large oil price rise of late 1973 OPEC countries as a group have been major suppliers of funds to world financial markets. Although the annual investable surplus of OPEC has varied widely from year to year, it has represented a large, single, concentrated financial resource. In 1980 the OPEC surplus exceeded $100

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/5/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	142.293	+ 4.865	+12.900
Loans to Depository Inst.	1.500	– .322	– .970
Float	2.131	+ .106	– .410
Total Reserve Bank Credit	156.451	+ 5.614	+11.410
Treasury Deposits with Federal Reserve Banks	9.773	+ 4.985	+ 5.598
Currency Outside Banks	127.543	– .106	+ 6.521
Member Bank Reserves:			
Required	40.111	–0–	– 1.065
Excess (Deficiency)	.456	+ .147	+ .098
Total Reserves Held	40.567	+ .147	– .967
Net Borrowed Reserves	.839	– .497	– 1.075
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.410	+ .635	– 9.015

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	449.9	+ 2.1‡	+ 4.3‡
M2 (April '82)	1,880.0	+ 8.5	+ 9.1
M3 (April '82)	2,256.8	+ 9.6	+ 10.3
L (December '81)	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 5/14/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.30%	12.30%	12.05%
* Federal Agencies	13.30	13.20	13.70
* Project Notes–Taxfree (46% Taxable Equivalent)	13.61	13.98	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	13.90	13.90	13.90

‡Finance Company Paper–Prime

5- 14 days	13.88%
15- 29 days	13.75
30- 59 days	13.63
60- 89 days	13.50
90-179 days	12.75
180-239 days	12.75
240-270 days	12.75

‡* Bankers' Acceptances

Jun.	13.85%
Jul.	13.50
Aug.	13.30
Sep.	13.20
Oct.	13.10
Nov.	12.90

‡Industrial Paper–Prime

30- 89 days	14.35%
90-120 days	13.85

†Federal Funds Effective Rate 14.50%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,995	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,484	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 3.9	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Mar '82	– 3.6%	2.4%	7.2%
Change in Producer Prices*	Apr '82n	1.2%	– 1.2%	10.8%
Civilian Employment (Thousands of Persons) †	Apr '82	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force †	Apr '82	9.4%	9.0%	7.3%
Personal Income*	Mar '82	$ 2,525	$ 2,514	$ 2,340
Leading Indicators Composite Index (1967=100) †	Mar '82	124.4	125.0	135.8
Industrial Production Index (1967=100) †	Apr '82n	140.7	141.5	151.9
Net Change in Consumer Installment Credit †	Mar '82n	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Mar '82	–$ 2.64	–$ 1.20	–$ 0.71
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82	947	924	1,318
New Construction Expenditures*	Mar '82	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Mar '82n	$ 505.9	$ 508.3	$ 487.7
Total Business Sales †	Mar '82n	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

billion and in 1981 it was over $60 billion. This year the outlook is for a much-reduced surplus—or even a deficit. This is based upon the combination of lower prices and reduced consumption compared with earlier years.

Recent forecasts for OPEC's financial position have ranged widely—from a surplus of $35 billion to deficits of up to $25 billion. Indeed, in the third quarter of last year OPEC as a whole was a net borrower in international financial markets, and it is probable that it has continued to be a net borrower since then. But with 1982 barely one-third over, it is possible that OPEC may generate a surplus if prices and consumption of oil continue to rise. However, such a surplus would probably be much smaller than in recent years, perhaps close to the modest $5 billion level of 1978.

. . . Will Alter Financial Markets

Certainly a much reduced surplus or a deficit will require some adjustment by the financial markets. Some would argue that a fall in the OPEC surplus will have no effect on the quantity of financial resources available for reinvestment because on a global basis, surpluses and deficits must balance. However, an OPEC surplus which represents funds not needed for current transactions is a concentrated financial resource held by a few investors (the OPEC governments, since oil is a nationally owned

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/28/82)	133,651	+ 1,475	+20,907
New York City (4/28/82)	34,181	+ 554	+ 5,873
Commercial Paper (4/28/82)	171,546	+ 78	+36,628

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/28/82)	204,459	— 267	+29,506
New York City (4/28/82)	57,290	— 177	+ 5,859

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/28/82)	479,462	+ 399	+48,588
New York City (4/28/82)	110,994	+ 16	+ 9,041

Financial Markets

	Friday 5/14/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.65%	+ .07	— 3.90
180-Day Bills†	13.10	+ 1.07	— 2.35
Longest Bills†	13.25	+ .05	— 1.20
Recent Issues:			
13⅞s 4/30/84	13.73	+ .17	
14s 3/31/86	13.49	— .03	
13¾s 5/15/92 (When Issued)	13.41	— .06	
14s 11/15/11	13.08	+ .06	
Municipals:			
Bond Buyer–20 Bond Index* (5/13/82)	11.82%	— .22	+ .99
Blue List Total ($ Million)	$1,091	+ $163	+ $331
30-Day Visible Supply ($ Million)	$2,510	+ $232	+ $637
Total	$3,601	+ $395	+ $968
Corporates:			
Moody's Aa Composite (5/13/82)	14.68%	— .18	— .21
30-Day Visible Supply ($ Million) ‡	$1,578	— $ 32	NA
Stocks:			
Dow-Jones Averages:			
Industrials	857.78	— 11.42	— 128.17
Transportation	350.84	— 2.06	— 74.96
Utilities	115.57	— 1.38	+ 6.66
65 Stocks	338.85	— 3.68	— 44.72
Standard and Poor's 500 Stocks	118.01	— 1.46	— 13.95
N.Y.S.E. Composite Index	68.11	— .65	— 8.43
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,722	— 6,116	+ 11,878

* 46% Taxable equivalent 21.89%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/14/82	Week Ago
Overnight	14.88%	14.00%
1 month	15.00	14.75
3 month	14.69	14.25
6 month	14.50	14.19
1 year	14.38	14.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.50%	14.40%
Long Term (7 to 15 yrs.)	14.60	14.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/14/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02290	43.67
Canada	.8069	1.2393
Denmark	.1278	7.8245
France	.1657	6.0355
Germany	.4329	2.3100
Italy	.0007779	1285.50
Japan	.004229	236.48
Mexico	.02139	46.76
Netherlands	.3891	2.5700
Switzerland	.5143	1.9445
U.K.	1.8200	.5495

commodity in OPEC countries) which can be placed in financial markets with great effect. By the same token, a smaller OPEC surplus means that there are a large number of governments and individuals who can use the funds that were not spent importing oil either for investment or, in the case of less developed nations, directly for consumption. In any event, the financial resources released by the reduced cost of oil imports are widely dispersed.

The fading of the OPEC surplus will thus result in a reduction in liquidity in world financial markets, which have been periodically awash with huge and destabilizing financial flows. The flow of funds through the markets may be expected to be smoother and more predictable, thereby reducing the volatility and instability characteristic of the financial and foreign exchange markets in recent years. Further, a reduced OPEC surplus also implies smaller current account deficits for oil importing countries which will translate into less borrowing—at least for balance of payments purposes. This will come at a time when many banks are reaching prudent lending limits with regard to heavy government borrowers and when the recent wave of debt reschedulings has caused the banks to become more cautious in extending credit.

The longer term significance of the fluctuations in the price/production equation over the past year is that a better balance between oil producers and consumers is resuming. No longer are the oil-importing countries without recourse when faced with sudden changes in price or production. The ability of oil-consuming nations to reduce consumption has been greater than some thought possible a few years ago, while the effect of lower consumption on oil prices has also been unexpectedly large. On the other hand, OPEC appears to be able to restrain production in the interest of sustaining the cartel, while the recent rise in U.S. consumption suggests continuing latent demand which is ready to respond to easing prices. It is apparent that the factors governing the supply of and demand for oil are approaching equilibrium. H

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We consistently meet the NYSE and SEC requirements for the prompt transfer of certificates from seller to buyer. With TRANSIFAC,™ our electronic nerve center, each entry of data is "key verified"—entered twice by two different operators and then compared automatically by computer. It's the most accurate bondholder record-keeping system available.

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